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STATE PASS TO USTR
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TAGS: ECON EFIN SNAR CO
SUBJECT: REMITTANCE FLOWS TO COLOMBIA

¶1. SUMMARY. Remittances to Colombia grew five percent in 2005 to USD 3.3 billion, with the majority coming from the U.S. and Spain. While rapid remittance growth assisted the economic recovery following the 1999 crisis, it has slowed considerably since 2003. Remittances equal 2.7 percent of GDP in Colombia, but average transaction costs have fallen to approximately 7 percent. END SUMMARY.

Remittances Reach All Time High in 2005

¶2. Colombia's Central Bank estimates that remittances, the earnings of Colombians working abroad which are returned to the country, reached an all time high of USD 3.3 billion in ¶2005. Although remittances grew at greater than 20 percent per year from 2000 to 2003, in the past two years growth has slowed to the four to five percent range, roughly in line with GDP growth. In 2005, remittances were 2.7 percent of GDP, down slightly from the peak of 3.8 percent in 2003. In 2005 they were equivalent to 33 percent of the value of foreign direct investment (FDI) to Colombia, in part due to the strong recovery of FDI during the year. When 2005 remittances are compared to exports, they are equivalent to 60 percent of petroleum exports, 128 percent of coal exports, and 225 percent of coffee exports. From this perspective, the returns from workers abroad would rank as Colombia's second largest export, exceeded only by petroleum.

	Workers Remittances to Colombia (USD mil.)	Percent Growth	As a Percent of GDP	As a Percent of FDI	As a Percent of Petroleum Exports
1999	$1,297	65	1.5	86	34
2000	$1,578	22	1.9	66	33
2001	$2,021	28	2.5	80	62
2002	$2,454	21	3.0	116	75
2003	$3,060	25	3.8	170	90
2004	$3,170	4	3.3	102	75
2005	$3,314	5	2.7	33	60

¶3. According to a recent IDB study, Colombia is the third largest recipient of remittances in Latin America after Mexico and Brazil. With remittances equal to only 3 percent of GDP, the Colombian economy is less dependent on them than Central American republics such as El Salvador (17.1 percent), or its Andean neighbors Ecuador (6.4 percent) or Bolivia (8.5 percent). Colombia's situation is closer to that of Mexico (2.8 percent) or Peru (3.2 percent). A 2005 survey of remittance costs by Manuel Orozco for the Pew Charitable Trust showed average transaction costs for Colombia in the 7 percent range, down from 10 percent in 2001 and among the lowest in Latin America. Only Ecuador, El Salvador and Nicaragua had lower average cost structures. Yet as Semana magazine pointed out in a recent article, costs for transfers within the U.S. averaged 3 percent and within Europe 3.3 percent, less than half the cost of a transfer to Colombia.

Emigration Pattern Explains Remittance Growth

¶4. The rapid growth in remittances to Colombia from 1999 is mainly due to a large emigration of Colombians from 1999 to ¶2001. According to the Colombian Central Bank, entry and exit records show that nearly three-quarters of a million more Colombians exited the country than returned during these three years. While the normal annual level of net emigration ranges from 120,000 to 160,000, from 1999 to 2001 net emigration averaged more than 260,000 persons per year. The primary cause was a deteriorating political, economic and security situation beginning in 1999. Economic growth declined 4.2 percent in 1999, and would not recover to pre-1999 levels for two years. By 2001, the price of coffee, Colombia's leading agricultural export, fell to nearly half the 1998 level, and would continue to fall until 2004. With the depreciation of the peso in the same period, by 2002 the

value in local currency of foreign earned dollars was nearly double the level four years earlier. Finally, on January 25, 1999, a magnitude 6.2 earthquake hit the densely populated coffee growing region around Armenia, killing nearly 1,000 persons, and leaving 200,000 homeless, complicating the difficult economic picture.

	Net Imputed Emigration From Colombia	GDP Growth Rate (percent)	Price of Coffee (cents per pound)	Exchange Rate (COP per USD)
1998	160,000	0.6	146	1,426
1999	225,000	-4.2	119	1,757
2000	282,000	2.9	102	2,093
2001	282,000	1.5	71	2,300
2002	136,000	1.9	64	2,506
2003	116,000	4.1	65	2,876
2004	158,000	4.1	81	2,636
2005	141,000	5.1	116	2,322

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Mostly From U.S.; Mostly Destined for Coffee Country
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¶5. As the primary destination of Colombian migrants, the U.S. is also the leading source of remittances by value, followed by Spain. According to a Colombian Central Bank survey in 2004, the U.S. was the source of nearly 58.3 percent of remittance transactions at an average value of USD 272 per transaction, or 48.4 percent of remittances by value. While Spain accounted for only 26 percent of total transactions, the average value per transaction was much higher at USD 425, and thus Spain accounted for 34.1 percent of remittances by value. Alfonso Garzon, President of AsoCambiaria, the national association of exchange houses, speculates the higher value per transaction from Europe may be influenced by two factors. Firstly, he believes Colombian migrants in Europe may earn more than their counterparts in the US. Secondly, higher transaction costs from Europe may encourage them to accumulate savings, and then send more money home at less frequent intervals.

¶6. Although information on remittance recipients in Colombia is limited, the Inter-American Development Bank (IDB) sponsored a survey in 2004 which sheds some light on the situation. 56 percent of recipients are women. Surprisingly, 85 percent of recipients have a high school diploma or higher, and nearly a third have a university degree. 68 percent of remittances were reported to be used for daily living expenses, leaving only 26 percent for investment in education, business or savings. 70 percent of remittances from the U.S. originate from three states - Florida, New York, and New Jersey - reflecting the large Colombian communities in the Miami and New York City metropolitan areas. The report also states 50 percent of remittances are sent to two regions in Colombia - the Pacific Coast (includes the departments of Valle de Cauca, Cauca, Narino and Choco) and Coffee Country (includes the departments of Quindio, Risaralda, and Caldas).

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Coffee Growing Regions Most Dependent on Remittances
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¶7. Estimates of remittances per capita can be made based on the IDB survey. In Coffee Country, annual remittances averaged USD 224 per capita in 2005, more than three times the national average of USD 72 per capita. The Pacific Coast region, which includes Cali, received remittances of USD 131 per capita, nearly double the national average. According to Enrique Montes, Chief of Economic Research at the Colombian Central Bank, this supports anecdotal observations that many migrants who left Colombia since 1999 came from the areas around Pereira and Armenia in Coffee Country and the coffee growing regions near Cartago in northern Valle de Cauca department. He explains, "These regions represent not the poorest parts of Colombia, but rather the rural regions with the highest standard of living owing to the income from cash crops such as coffee. They are the rural areas with the strongest institutions, and the best educational opportunities. Thus, unlike their counterparts in other parts of Colombia, they had the knowledge and the means to emigrate to the U.S. or to Spain." A recent report in Semana magazine noted that 16 percent of families in Pereira, a major city in Coffee Country, have at least one family member living abroad.

Region Of Colombia	Percent of Remittances	Percent of Population	2005 Average Remittances per Capita (USD)
Pacific Coast	32	18	131
Coffee Country	19	6	224
Antioquia	16	13	92
Bogota, D.F.	16	16	74

Caribbean Coast	10	22	33
Eastern Colombia	4	6	51
Central Colombia	3	21	10
National Average			72

Remittance Payments Dominated by Exchange Houses

¶8. Remittances may originate abroad either through financial intermediaries or through constituent banks. An IDB study showed that financial intermediaries dominate the sending end - Western Union and Moneygram together have nearly a third of the market. Payments are received in Colombia either at exchange houses or at banks, but the market for payments is dominated by the exchange houses with a 90 percent share. According to Alexander Campos, Director of Financial Research at AsoBancaria, the national banking trade association, the rapid growth of remittances through 2003 prompted many commercial banks to enter the market, and their share of payments has increased from 5 percent in 2002 to 10 percent today. Campos admits that banks' market share has grown slowly due to their poor reputation among low and middle class remittance recipients. An IDB survey showed that nearly half of remittance recipients did not have a bank account, and 70 percent of them had a poor opinion of banks. President Garzon of AsoCambiaria believes that most remittance senders prefer the flexibility of exchange houses, which have longer hours, are often open on weekends and holidays, and can deliver money in hours rather than days.

Macroeconomic Impact of Remittances

¶9. An IDB survey showed that nearly 80 percent of remittances to Colombia are spent for consumption or education expenses, and only 14 percent are either saved or invested in a business or property. Alexander Campos of AsoBancaria estimates remittances represent up to 5 percent of total national consumption. The more than 20 percent annual growth in remittances from 2000 to 2003, he notes, clearly helped the Colombian economy recover in the years following the 1999 crisis by spurring consumer demand. Comments that the rapid growth of remittances contributed to the appreciation of the Colombian peso in 2004 and 2005, however, are not supported by the evidence of the foreign exchange market, says Director Campos. With annual foreign exchange transactions in the USD 95 billion range, he continues, the USD 3.3 billion in remittances would represent only three to four percent of annual trading.

Money Laundering and Remittances

¶10. In the past several years, the Colombian press has reported on the practice of laundering money via remittance transfers. Launderers evade government controls by splitting a large transfer into many smaller ones, usually below the limit of scrutiny by regulatory authorities. Andres Mutis, Deputy Director for Strategic Analysis at the Financial Information and Analysis Unit (UIAF), agrees that laundering through remittances remains a problem in Colombia. UIAF reviews data on all transfers of USD 200 or higher, which represent 90 percent of remittances by value. Director Mutis believes that the import of contraband goods and hand carrying of unreported currency represent are more widely used as laundering channels. The Colombian Attorney General's office, the Fiscalia, does not deny this, but notes that there has been no noticeable decline in laundering via remittances, in part because it is difficult to detect. They emphasize that authorities need to remain ever vigilant, but are very positive about the participation of financial institutions in reporting suspect cases and cooperating with investigations.

Comment

¶11. While statistics show that remittances are not generally acting as a social welfare net for large segments of the poor population, they are an indispensable lifeline to many families in Colombia. Limited banking penetration constrains the potential benefit of remittance flows in the local economy, and contributes to higher transaction costs for recipients.

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